



INTERNATIONAL ACTUARIAL ASSOCIATION

IAIS Task Force of the ASC

ISAP 7 Meeting

Friday, October 16, 2015, 8:30 – 10:00

The Westin Bayshore Hotel, Vancouver, British Columbia, Canada
Minutes

Attendance:

Members Andrew Chamberlain [Chairperson and Liaison to ASC]
Jacqueline Friedland
Jules Gribble
Tom Karp
Toshihiro Kawano
Dave Sandberg

Amali Seneviratne – Staff Liaison

Observers Peter Braumüller
Micheline Dionne
Alf Gohdes
John Instance
Ann Muldoon

1. Opening of the meeting - Welcome and introductions
2. Approval of the agenda without change
3. [Notes from the previous meeting](#) agreed without change.
4. **Feedback from the ASC**
Andrew Chamberlain gave a brief update:
 - The ASC agreed to consider an alternate numbering structure for the ISAP, different to the currently applicable three section structure followed in ISAPs 1-3. ISAP 4 and ISAP 7 TFs were requested suggest suitable alternatives.
 - Interaction between ISAP 4 and ISAP 7 – the common topics should use common language to the extent possible. The two task forces will continue dialog to keep each other informed on how best to deal with the common topics.
5. **Feedback from Insurance Accounting Task Force (ISAP 4)**
A few representatives from the ISAP 4 and ISAP 7 TFs had a useful meeting on Wednesday. They will continue to interact as drafting progresses in both groups. This small group will have two conference call between now and St. Petersburg to keep each other updated and discuss how best to deal with the common sections.

Micheline Dionne stressed that the ISAP 4 draft is still very much a work in progress. The TF is waiting for the IASB to finalise the topics of Contractual Service Margin and Participating Contracts in IFRS X. In the meantime the TF will continue to draft the topics that are fairly stable and not likely to change.

Jacqueline Friedland commented that section 1.3 in the ISAP 4 draft is currently too broad and should be reviewed and narrowed. A paragraph on the role of the actuary would be valuable in ISAP 7 as well. However, the possible roles of the actuary in the context of ISAP 7 are not clear and needs to be clarified with the IAIS.

- i. Is the actuary an advisor to the preparer in the IAIS context?
- ii. Is the actuary expected to provide actuarial certification for the current estimate? Thus, making the actuary responsible?
- iii. OR is the role of the actuary determined based on the requirements in the territory? In some countries the actuary is expected provide actuarial certification, while in some others the actuary's role is to advise the preparer or the auditor.
- iv. It is generally agreed that the knowledge and competency requirements would be the same for whatever role the actuary is engaged in, but the approach/documentation would differ according to the role.
- v. The IAIS is expecting a single number for the current estimate. However the IAIS should understand the uncertainties around the current estimate and the existence of a range of possible reasonable numbers for the current estimate. The IAIS should also recognize that there is an acceptable deviation from the current estimate which can be fuzzy. Actual experience over many years will help to narrow the range and reduce the fuzziness/uncertainty.
- vi. Should the current estimate include catastrophe? Catastrophic events would be included in calculating the normal mean; but they have a low impact because the probability is low. However, catastrophe should be excluded when determining the range. The range indicates the extent to which the mean is accurate; it is not the extent to which the mean represents the possible outcomes.
- vii. The IAIS may expect the standard to address the distribution around the mean. This would relate to "other matters in relation to IAIS Capital Standards" and not to the current estimate per se. This is to be clarified with the IAIS.

The TF seek clarification from the IAIS regarding the role of the actuary in the context of ISAP 7.

Later Note: Andrew circulated the following questions to the TF for discussion at their meeting on 12 November:

1. *Can IAIS please advise us which of the following situations should we allow for in drafting the proposed ISAP?*
 - a. *The actuary is acting as an adviser to the governing body of the insurer/group on the current estimate.*
 - b. *The actuary is providing an actuarial certificate over the calculated current estimate.*
 - c. *The actuary and governing body are jointly responsible*
 - d. *The role of the actuary may be any of these, dependent on local jurisdiction.*
2. *Further, with regard to audit of current estimates*
 - a. *It is not expected there will be audit*

- b. It is expected for there to be audit and therefore there is likely to be an actuary advising the auditor*
- c. Audit or not will vary by local jurisdiction*
- 3. We believe the IAIS expects there to be a single number arrived at for the current estimate, rather than a range of values. Is this correct?*
- 4. Would IAIS wish a range of possible values of the mean (rather than a range of possible outcomes) to be estimated routinely?*
- 5. When estimating the mean, is it consistent with IAIS thinking that extreme events are included, albeit with low probability and therefore low impact on the mean? They would not have material impact on the range of values of the mean.*
- 6. Does IAIS wish this exercise of reaching the current estimates to provide any input to the distribution of possible outcomes around the mean, for the purposes of capital standards?*

6. Update on activities of the IAIS since Zurich

The Chair invited Jules Gribble to give an update on the activities of the IAIS since Zurich:

- i. IAIS announced on 5 October 2015 that it concluded the initial development of the Higher Loss Absorbency (HLA) requirement for global systemically important insurers (G-SIIs). Similar to the Basic Capital Requirement (BCR), the HLA required capital formula utilises a factor-based approach.
- ii. BCR and HLA are expected to be reviewed every year for a variety of reasons. A consultation paper is expected in November on the definition of non-traditional non-insurance business. The definition of non-traditional business needs more clarity.
- iii. Field testing for 2015 started after Zurich and the data is coming in. The field testing was helpful in finalizing the HLA and will be helpful in the opening phase of the development of the ICS which will be applicable to Internationally Active Insurance Groups (IAIGs). The ICS is expected to be risk based, globally comparable and applicable to all IAIGs; so it's got a bigger "footprint" in the industry compared to the BCR and HLA. The ICS is a work in progress.
- iv. There is general consensus that a conceptually comparable place to start looking at liabilities is the current estimate without the margins. The expectation is that the current estimates applicable in the BCR will be applicable in ICS as well.
- v. The technical specifications for field testing will be published next week. The technical specifications will articulate the high level presumptions on the current estimate, and will be useful for this TF.

Andrew stated that a fairly advanced draft of the ISAP 7 ED can be expected around September 2016.

7. Discussion

The members went on to discuss how best to move forward with the drafting considering the comments received and the discussions so far. It was agreed that the best approach would be to first map the contents of ISAP 4 to the contents of

ISAP 7. Since ISAP 4 was further ahead in drafting, it was agreed to review the wording in ISAP 4 for the relevant sections and accept/change as deemed fit. In order to move forward, the responsibility or reviewing the relevant paragraphs in the current section 2 of the ISAP 4 ED was agreed as follows:

- i. Tom Karp - ISAP 4 2.5.3 cash flow estimates to – 2.5.3.4. general approach to assumption setting
- ii. Dave Sandberg- Mortality and Morbidity assumptions
- iii. Jacque Friedland – paragraphs relating to General Insurance Risk
- iv. Andrew – Paragraphs relating to Discounting

Section 1 – is standard, but the TF needs to raise some questions with the IAIS, particularly for clarification in relation to the role of the actuary.

Both TFs will work on a suitable structure for the ISAPs. The two TFs will continue to interact to keep each party informed of the developments. Two calls will be scheduled for the smaller group of representatives from both TFs before St Petersburg.

8. Next steps and timeline prospect

The secretariat will conduct a doodle poll to schedule monthly calls of the task force between November and March (Wednesdays or Thursdays 7:00 am Eastern Time) and step up the frequency thereafter based on the progress made.

A full day meeting might be useful once a good draft is available to discuss. St. Petersburg may have low attendance; so another suitable location with easy access for everyone should be thought of to set up a face to face meeting, possibly around April 2016.

The meeting concluded with the Chair thanking all those who attended and contributed to the discussions.

The ongoing list of action items carried forward is included here for reference:

No.	Description	Responsibility	Remarks
Items b/f from previous meetings:			
1.	Follow up with Jules on IAIS input	AC	Jules has provided his comments
2.	Draft suitable recommendations to the IAIS on the approach for GI. (re: para 2.4)	GI members of the TF	
3.	Para 2.5.3.3.3 h provide recommendations to the IAIS on Discounting Rates	TF	
4.	Review ISAP 4 draft	TF	On going
5.	Uncertainty – clarify what uncertainty means in the context of ISAP 7. Further discussion needed within the TF and with the IAIS as necessary.	TF	
6.	Consider including a feedback loop to validate assumptions. Actual Vs. Expected.	TF	

7.	Include guidance on valuing annuities coming out of P&C liabilities (if necessary), after considering the guidance written for life insurance. (Flagged for later consideration)	GI members of the TF	
8.	Section 2 in the draft (current Estimates) to be reviewed and developed further. Some high level core principles applicable to both Life and general should be in Sec 2. The details specific to each class should be moved to the relevant sections as these sections develop.	TK	Done (18/6)
9.	General approach to adopt when drafting – Include more details than needed to allow for comprehensive discussion. Delete what is deemed unnecessary after discussion, noting as such, and keeping an inventory in some suitable format.	TF	Ongoing
10.	Review and comment on initial draft prepared by JF for content (not language).	CF for the GI content and the TF for other content.	
11.	Expected value of cash flows – Check Sam Gutterman's paper to borrow suitable wording if possible.	JF	
12.	Draft the paragraphs relating to mortality and morbidity by the next call as a starting point for the Life section	DS	Done (18/06)
13.	Build on the initial draft prepared JF adding sections as deemed necessary as drafting progresses.	TF	
14.	JF volunteered to be the "scribe"/ editor of ISAP 7 and to take on the responsibility to maintain the developing exposure draft versions.	JF	
15.	Prepare an initial draft of ISAP 7 for discussion at the ASC meetings in Vancouver.	TF	Done
16.	Dave S to revise the draft on Mortality/ Morbidity and circulate to the group within a week.	Dave S	Done
17.	The TF be careful when using the generic term "estimates" when drafting.	TF	
18.	Share Dave's paper with the ISAP 4 TF and get their views.	AC	Done
19.	Revise the draft of Section 2 of ISAP 7 along the lines discussed on the call	TK	Done
20.	Follow up with Ralph Blanchard and possibly UK colleagues regarding P&C practice in relation to recommending current estimate – does the actuary recommend a point estimate or a range of acceptable values for a current estimate?	JF	
21.	Draft section on generic assumption setting process	AC	
22.	Drafting approach: Keep educational material out of the ISAP. However, when the information is necessary to clarify/understand what the ISAP means, such information will be included.	TF	

	Information purely to help actuaries (from less developed jurisdictions) understands actuarial concepts better is educational material and will be excluded from the ISAP. The TF will follow this rule of thumb when drafting.		
23.	Review wording under 1.1 to reflect the purpose of the ISAP aligned to the approach stated in the SOI with regard to BCR and ICS. (comment by Toshihiro)	AC	
24.	Current estimate Vs. best estimate – provide clarification in the ISAP to avoid any confusion that may arise in the use of these two terms.	TF	
25.	Discuss the format for ISAPs – should Section 2 contain <u>all</u> guidance on appropriate practices? This makes section 2 awfully long for complex ISAPs. Is the ASC open to changing the format for ISAPs?	AC - Raise this with the ASC in Vancouver.	Done
26.	Discuss the common elements with ISAP 4, in the joint meeting with the ISAP 4 representatives.	AC	Done
New items added			
27.	Formulate questions for the IAIS on the role of the actuary in the context of ISAP 7	AC	
28.	Map and review the wording in ISAP 4 for the common topics. Suggest changes as deemed fit for discussion with the TF.	TK, AC, JF, DS	
29.	Schedule monthly calls up to March 2016	AS	
30.	Propose alternate structure for the ISAPs to the ASC	TF	